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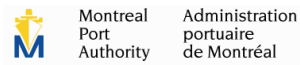
Moving the **Canadian Economy**

Four Pillars For A National Transportation Strategy

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Executive Summary



Transportation has always been a critical component of the Canadian economy. Connecting our vast geography, transportation is an economic enabler, providing a framework for value-added sectors to develop, to create jobs, and to compete.

However, increasing global competition, integrated global supply chains, the growing services sector and urbanization in Canada, current and forecasted skills shortages, recent fluctuations of the Canadian dollar and fuel prices, and growing environmental concerns require a new vision for an efficient and cost-effective transportation system. While the Government of Canada has implemented a number of positive initiatives and policies over the years, it has not been guided by a long-term and predictable strategy. Our transportation infrastructure requires significant investment and our transportation regulatory environment, consisting of inefficient tax and operating requirements and split responsibilities between levels of government, requires modernization.

We need to increase our competitiveness. Our competitors are investing billions of dollars in transportation infrastructure. If we delay, we will not only miss new opportunities, but also put our current business at risk. The window of opportunity is believed to be five to six years. The danger in not acting now is to be pushed to the fringe for access to global supply chains and therefore, to the fringe of the global economy.

Call to Action

We recommend that the Government of Canada develop and implement a *National Transportation Strategy* for the movement of goods and people. It must ensure that all parts and levels of government share a common vision while working collaboratively with industry toward a common goal. There are a number of important transportation initiatives in various government departments, but given the importance of trade to Canada's economic well-being and changing domestic and global economies, a *National Transportation Strategy* needs to be in place to guide the actions of all government departments, not just the action of one ministry.

The *National Transportation Strategy* should have a clear scope, with ambitious and targeted objectives that follow four guiding pillars – that it be:

- A North American vision;
- A multimodal transportation infrastructure investment strategy;
- A competitive regulatory and fiscal environment; and
- Developed in an economically, socially, and environmentally sustainable manner.

Scope

Through a multimodal approach, the scope of the *Strategy* should facilitate the movement of goods and people within Canada, including urban and regional areas; between Canada and the United States; and between Canada and the rest of the global economy.

Objectives

The objectives of the *National Transportation Strategy* are as follows:

1. Develop the safest and most effective multimodal transportation system by integrating policies concerned with the movement of goods and people in marine, air, rail and road transportation, warehousing facilities, urban transportation, border security, and transportation information flows.
2. Make Canada a competitive gateway for inbound and outbound trade and travel between North America and the rest of the world, attracting 10 to 15 percent of the forecasted trade into North America.

3. Be socially and environmentally sustainable, aiming to reduce the social impacts and the carbon footprint of the transportation of goods and people.
4. Develop and implement the Strategy in partnership with stakeholders, including the private sector, and effectively communicate it to the Canadian population at large.
5. Build on current and past government initiatives and policies, creating a benchmark that is flexible and responsive to changing economic conditions, and that can continually be built upon and improved by future government and private sector partnerships.

infrastructure single window to streamline the regulatory and approval process; and

- Pursue public-private partnerships, wherever appropriate and feasible, to maximize efficiency in maintaining and developing transportation infrastructure.
3. Given the multimodal nature of the transportation system, and recognizing the distinct advantages and competitive situations of each mode of transportation, develop a national, non-discriminatory, and market-based regulatory and fiscal environment that fosters competition in the transportation system.
 4. Analyze all transportation infrastructure and regulatory projects and weigh these against the economic, social, and environmental axes of sustainable development. Upgrading, expanding, and preserving Canada's transportation system and infrastructure should take a sustainable approach by working with all levels of government and, in collaboration with the private sector:

- Take a leadership role in addressing community impacts and environmental concerns;
- Build public awareness of the importance of transportation in relation to the quality of life enjoyed by all Canadians;
- Attract skilled people to meet the needs of the transportation sector; and
- Be forward looking by encouraging transparency across the supply chain and containing a research initiative tied to the objectives of the *Strategy*.

Four Pillars

The four pillars of an effective *National Transportation Strategy* are as follows:

1. View the Canadian transportation sector as a single multimodal system with a vision for a North American transportation system, recognizing that the border is part of the North American supply chain. A strong North American transportation vision:
 - Maintains a secure and trade efficient border that facilitates the movement of legitimate goods and people; and
 - Establishes a cooperative framework to efficiently utilize and enhance current levels of border capacity and integrate our transportation systems.
2. Develop a priority-based multimodal transportation investment strategy that operates for a period of not less than 10 years. The investment strategy should:
 - In cooperation with provincial and territorial governments, contain a formal transportation

Growing international competition, increasing global supply chains, and the changing Canadian economy make the adoption of a *National Transportation Strategy* essential to ensure the competitiveness of Canada. We call on the Government of Canada to proactively development a *National Transportation Strategy* for the movement of goods and people.

Why We Need a National Transportation Strategy



Transportation has always been a critical component of the Canadian economy. It is the lifeblood of the economy, bringing goods to your local market, taking you across town and on your next vacation. Our vast country touches three oceans and borders the largest and most vibrant economy in the world. We built the Canadian Pacific Railway to connect the northern half of North America with bands of steel. The Trans-Canada Airline was established to connect eastern and western Canada. As the Canadian economy changed, we established the Trans-Canada highway and, in partnership with the United States, built the St. Lawrence Seaway. Once again, the Canadian economy and the global marketplace are changing, putting additional pressure on our transportation system.

Canada's transportation sector is a vital link to the Canadian economy. It contributes approximately 881,000 direct jobs¹ and represents 4.0 percent of GDP². More importantly, the transportation sector is an economic enabler for the rest of the economy, providing a framework for value-added sectors to develop, to create jobs, and to compete. It facilitates 80 million international trips to and from Canada. It moves \$620 billion per year of goods domestically³, and 67.6 percent of our GDP⁴ between Canada and the global marketplace, including \$1.6 billion that crosses the Canada-U.S. border every day⁵. Global tourism demand remains robust and economists have forecasted that Canada's trade with the global marketplace could double or even triple by 2020.

As the global economy evolves, it brings increasing global competition and reconfigures global supply chains. China and India, which have become global economic leaders, are continuing to grow at a breathtaking pace. In fact, China is projected to overtake the United States as the largest economy by 2050⁶. While the United States continues to be our dominant trading partner, Canada is becoming more engaged in the global economy. The increasing competition has led shippers to use transportation and logistics as a competitive advantage. For example, Canadian manufacturers, looking to keep as little inventory on hand

as possible, require their imported goods to arrive in a just-in-time manner so that they can be used in the assembly process upon arrival. Companies in the tourism sector demand a system that can efficiently move people into and around Canada. Shippers and travellers increasingly view each transportation mode as part of a multimodal system, a system that must remain efficient and cost-effective to meet the needs of the Canadian economy.

The Canadian economy is also changing structurally, as follows:

- The emergence of the Canadian services sector demands a transportation system that facilitates the efficient movement of people within urban areas, throughout Canada, and between Canada and the global economy. However, growing urbanization puts additional pressure on road and public transit infrastructure in major Canadian cities. This urban growth is expected to increase, with significant challenges emerging in Calgary, Edmonton, Halifax, Montreal, Toronto, Vancouver, Winnipeg, and other growing Canadian cities.
- Demographic changes in Canada have led to a growing skills shortage, affecting the entire economy because employers cannot find enough people to meet growing demands.
- Recent fluctuations of the Canadian dollar and fuel prices create uncertainty for Canadian manufacturers and service providers.
- Climate change and pollution are global concerns. Change must come from all sectors of the economy, including the transportation sector.

The strategic role of transportation is recognized in a number of government reports, including in the existing transportation policy. The current policy, as expressed

¹ Transport Canada. 2006. "Transportation in Canada 2006". Annual Report.

² Transport Canada. 2007. "Transportation in Canada, an Overview".

³ Transport Canada. 2006. "Transportation in Canada 2006". Annual Report.

⁴ Department of Foreign Affairs and International Trade Canada. 2008. "Canada's State of Trade".

⁵ Canadian Embassy to the United States. 2008.

⁶ Americans for Transportation Mobility. 2008. "The Transportation Challenge: Moving the U.S. Economy". National Chamber Foundation.

in Section 5 of the *Canada Transportation Act*, is too general in scope to provide the guidance that is needed in the 21st Century. Increasing global competition, integrated global supply chains, the growing services sector and urbanization in Canada, current and forecasted skills shortages, recent fluctuations of the Canadian dollar and fuel prices, and growing environmental concerns require a new vision for an efficient and cost-effective transportation system. While the Government of Canada has implemented a number of positive initiatives and policies over the years, it has not been guided by a long-term and predictable strategy. Our transportation infrastructure requires significant investment, and our transportation regulatory environment, consisting of inefficient tax and operating requirements and split responsibilities between levels of government, requires modernization.

We need to increase our competitiveness. Our competitors are investing billions of dollars in transportation infrastructure. If we delay, we will not only miss new opportunities, but also put our current business at risk. The window of opportunity is believed to be five to six years. The risk of not acting now is to be pushed to the fringe for access to global supply chains and therefore, to the fringe of the global economy.

Call to Action: We recommend that the Government of Canada develop and implement a *National Transportation Strategy* for the movement of goods and people. It must ensure that all parts and levels of government share a common vision while working collaboratively with industry toward a common goal. There are a number of important transportation initiatives in various government departments, but given the importance of trade to Canada's economic well-being and changing domestic and global economies, a *National Transportation Strategy* needs to be in place to guide the actions of all government departments, not just the action of one ministry.

The *National Transportation Strategy* should have a clear scope, with ambitious and targeted objectives that follow four guiding pillars – that it be: a North American vision; a multimodal transportation infrastructure investment strategy; a competitive regulatory and fiscal environment; and developed in an economically, socially, and environmentally sustainable manner.



Scope of the National Transportation Strategy



A *National Transportation Strategy* should address the entire transportation system, taking into account the priorities of Canadian business. Forecasted increases in international trade and a changing Canadian economy require an efficient and cost-effective multimodal transportation system to move goods and people within Canada, including urban and regional areas; between Canada and the United States; and between Canada and the rest of the global economy.

Scope: Through a multimodal approach, the scope of the *Strategy* should facilitate the movement of goods and people within Canada, including urban and regional areas; between Canada and the United States; and between Canada and the rest of the global economy.

Objectives

A National Transportation Strategy should have clear objectives to reach its full potential. These are outlined here.

Objective 1

The first objective is for Canada to develop the safest and most effective multimodal transportation system. This can be accomplished by integrating policies related to the movement of goods and people in marine, air, rail and road transportation, warehousing facilities, urban transportation, border security, and transportation information flows.

Objective 2

To make Canada a competitive gateway for inbound and outbound trade and travel between North America and the rest of the world. Canada has the geographic advantage of being situated next to the United States, and being a natural gateway into North America for goods and people entering from Asia and Europe. When the United States does business with the global economy, 10

to 15 percent of the 30 million twenty-foot equivalent unit (TEU) growth expected in North America by 2015⁷ should go through Canada.

Objective 3

That the transportation system be socially and environmentally sustainable. It should aim to reduce social impacts, and the carbon footprint of the transportation of goods and people.

Objective 4

That the Strategy and its implementation be done in partnership with and be effectively communicated to stakeholders, including the private sector. Knowing the government's infrastructure plan for the future is extremely important for determining plant and operational activities. According to a 2008 KPMG Competitive Alternatives report, transportation is a major driver of location decisions made by manufacturers, representing approximately 16 percent of location-sensitive costs⁸. As a result, transportation infrastructure and the communication of a future vision are important factors that influence decisions on organizational location.

Objective 5

That the Strategy be built on current and past government initiatives and create a benchmark that can continually be built upon and improved by future governments and the private sector. Over the years a number of initiatives have been implemented to improve Canada's transportation system. The *National Transportation Strategy* brings these policies together and moves forward with developing quality infrastructure and an efficient and

⁷ Padova, Allison. 2006. "Trends in Containerization and Capacity at Canadian Ports". Library of Parliament.

⁸ KPMG. 2008. "Competitive Alternatives: KPMG's Guide to International Business Location".

cost-effective transportation system. While forecasted increases in international trade and other economic factors will provide the basis for a national strategy, the policy must be flexible enough to address structural changes to international transportation and the global economy. Just as containerization revolutionized international trade in the 20th Century, similar structural changes could occur in the near future, and the *Strategy* must be able to adapt to the new realities.

Four Pillars of the National Transportation Strategy



A North American Vision

Making Canada a competitive gateway into North America entails taking advantage of our geographic location bordering the world's largest economy. Currently, Canadian and U.S. manufacturing is part of continent-wide operations, with one-third of our bilateral trade consisting of the intra-company delivery of input materials⁹. Further, 85 percent of non-resident travel to Canada in 2007 was by visitors from the United States¹⁰. We need an integrated transportation system to move raw materials, component parts, and finished goods on an increasingly just-in-time basis, in addition to moving people in an efficient manner. This requires an efficient multimodal transportation system in Canada and a vision for a North American transportation system that treats the border as part of the supply chain. If the border doesn't work effectively, it negatively impacts the rest of the system.

North American security and economic competitiveness are mutually dependent. A North American vision encompasses land, marine, and air border points that facilitate the movement of legitimate goods and people while strengthening security, meeting the demands that the Canadian and U.S. economies put on the transportation system. Using available border technology, and moving as much processing away from the border as possible, will allow border officers to focus their limited resources on high-risk and unknown trade and travel, creating a seamless border for legitimate, low-risk goods and people.

Facilitating the movement of legitimate goods and people also requires land, marine, and air border infrastructure that can handle our integrated economies and the \$1.6 billion in two-way trade¹¹, and 300,000 travellers that cross our shared border every day¹². Both the Canadian and U.S. governments at all levels should work together to use current border capacity efficiently, prioritize infrastructure capacity enhancement at border crossings for all modes of transportation, and eliminate duplicative regulatory processes to complete infrastructure projects in an efficient manner.

Building on the continental North American railway system, major Canada-U.S. highway links, and the Canada-U.S. Open Skies agreement, both countries should continue to seek ways to enhance supply-chain efficiencies. This can be accomplished by investigating other trade in transportation services opportunities, by looking at new multimodal transportation options, and by further integrating our transportation systems, creating a comprehensive North American system.

Facilitating the movement of legitimate goods and people and having infrastructure that can handle growing demands decreases congestion, benefiting both the North American economy and the environment. The completion of infrastructure projects in a timely manner will let companies properly plan their future logistics systems.

Pillar #1: View the Canadian transportation sector as a single multimodal system with a vision for a North American transportation system, recognizing that the border is part of the North American supply chain. A strong North American transportation vision:

- Maintains a secure and trade efficient border that facilitates the movement of legitimate goods and people; and
- Establishes a cooperative framework to efficiently utilize and enhance current levels of border capacity and integrate our transportation systems.

⁹ Ambassador Michael Wilson. March 29, 2007. "The Canada-U.S. Border: Free Trade in a time of Enhanced Security."

¹⁰ Statistics Canada. 2008.

¹¹ Canadian Embassy to the United States. 2008.

¹² Embassy of the United States to Canada. 2008.

A Multimodal Transportation Infrastructure Investment Strategy

A fundamental aspect of any transportation system is infrastructure. To develop the safest and most effective multimodal transportation system, one that is a competitive gateway for North America, requires an infrastructure platform that can facilitate the multimodal movement of goods and people within Canada, including within urban areas; between Canada and the United States; and between Canada and the rest of the global economy. This requires the targeted and prioritized maintenance and enhancement of roads, railways, air transport facilities, marine systems, borders, bridges and tunnels, and inspection plazas that Canadian carriers use to compete to deliver goods, services, and people. Infrastructure consists of the facilities that the travelling public uses for business and leisure travel, including urban, regional, and international transportation facilities, which are vital elements to the competitiveness and efficiency of our transportation system and economy.

Building on *Advantage Canada*, the long-term funding of the *Building Canada Plan*, and the integrated planning, priority setting, and investment strategy of the *National Policy Framework for Strategic Gateways and Trade Corridors*, a long-term funding mechanism taking into account all aspects and functions of the transportation system is needed to prepare and allow Canada to compete in changing domestic and global economies.

While consistent and long-term funding for transportation infrastructure projects is needed to develop Canada's transportation infrastructure, duplicative regulatory procedures and environmental assessments can potentially hold up a project for years. Streamlining the regulatory process is essential for decreasing project development time and ensuring infrastructure projects are completed in a predictable manner. One way to achieve this is to create a joint federal-provincial/territorial single window for all transportation infrastructure projects that fall under this *National Strategy*. This joint initiative would consolidate and streamline the regulatory process through a formal federal and provincial/territorial initiative similar to the Major Projects Management Office (MPMO), which provides a single window for the federal regulatory process of natural resource projects. The goal of this joint federal-provincial/territorial transportation infrastructure single window should

be the same as the MPMO, which is to cut in half, at a minimum, the review period for transportation infrastructure projects.

Infrastructure projects provide important economic opportunities to Canadian businesses in maintaining and enhancing Canada's transportation infrastructure. The federal government acknowledged by establishing a Public-Private Partnership Office (P3s), that P3s are important tools for combining the innovative capacity of the private sector with the skills of the public sector for planning and managing public interests. In addition to relieving public finances, P3s can effectively and efficiently maintain and further develop Canada's transportation infrastructure.

Pillar #2: Develop a priority-based multimodal transportation investment strategy that operates for a period of not less than 10 years. The investment strategy should:

- In cooperation with provincial and territorial governments, contain a formal transportation infrastructure single window to streamline the regulatory and approval process; and
- Pursue public-private partnerships, wherever appropriate and feasible, to maximize efficiency in maintaining and developing transportation infrastructure.

A Competitive Regulatory and Fiscal Environment

While infrastructure provides the platform on which the Canadian economy stands, transportation service providers actually move the economy. Therefore, it's not only about having the best infrastructure, but also about being able to efficiently use its capacity. Developing the safest and most effective multimodal transportation system and making Canada a competitive gateway for North America requires a strong infrastructure platform, and a national, non-discriminatory, transparent, and cost-effective regulatory and fiscal environment for carriers and ports of entry to operate.

Competitive forces amongst carriers of a given mode, between modes of transportation, and between ports of entry are necessary to enhance competitiveness through increases in the frequency of service offerings, increases in the choice of service providers and transportation service options, and lowering service prices. A given supply chain may contain a marine or air carrier, a port of entry, a warehouse, a rail service provider, and a truck before it makes it to its destination. Similarly, a traveller may use a combination of public transit and international and domestic carriers and ports of entry. In both cases, one inefficient player can affect the entire supply chain and travel system.

Recognizing their distinct advantages and competitive situations, public policy should not provide one mode of transportation or carrier with a significant competitive advantage over another. Instead, it should be national in scope and foster competition amongst carriers, modes of transportation, and ports of entry. This would give carriers and ports of entry equal opportunities to recover costs, reinvest in infrastructure and new technologies, and expand their services. The government must ensure that levels of taxation and regulation are consistent and competitive between both domestic and international modes of transportation. In particular, the government cannot allow its tax and regulatory regimes, including its security requirements, to disadvantage any mode of transportation.

Some modes of transportation invest private funds in transportation infrastructure development. An inefficient regulatory and fiscal environment strips away current and future infrastructure investments. A more stable and market-

based regulatory and fiscal environment will improve the economic performance of industry participants, leading to more private funds dedicated to capacity enhancement and the maintenance of transportation infrastructure.

Building on the efficiency and flexibility enhancement that resulted from the divestiture and devolution of transportation infrastructure, and the recently passed Bill C-23, *An Act to Amend the Canada Marine Act and Other Acts in Consequence*, a market-based regulatory and fiscal environment is needed for the Canadian economy and its society to have a safe, efficient, and cost-effective transportation system.

Pillar #3: Given the multimodal nature of the transportation system and recognizing the distinct advantages and competitive situations of each mode of transportation, develop a national, non-discriminatory, and market-based regulatory and fiscal environment that fosters competition in the transportation system.



Sustainable Development

Developing the safest and most effective multimodal transportation system and making Canada a competitive North American gateway require efficiently using current capacity, as well as significant and long-term infrastructure upgrades, development, and expansion. This involves balancing the economic, social, and environmental axes of sustainable development.

While the intensity of greenhouse gas emissions in the transportation sector has decreased in Canada, climate change is a critical consideration. The Canadian transportation sector, in partnership with government, should take a leadership role in reducing greenhouse gases with realistic and achievable commitments, through the use of economically and environmentally efficient technologies and alternative fuels. In addition, reducing greenhouse gas emissions by using fuel-efficient transportation technologies may reduce the costs associated with the movement of goods and people. Public policy and government initiatives should encourage the development and use of economic alternative energy sources and technologies by considering all options – not just by picking winners and losers. We must keep in mind that Canada participates in a North American economy, and as part of a North American vision, requires North American environmental standards.

While Canada's transportation system benefits the entire country, major transportation infrastructure can impact the quality of life in the host communities. Mitigating these impacts, where possible, needs to be part of the *National Strategy* and will help build community support. Whether it's getting people to and from work, enabling families to travel around the country and the world, or moving goods around the planet, transportation has both global and local benefits. Expanding Canada's transportation system and infrastructure in a timely and efficient manner requires all stakeholders to be supportive of the initiative. Building public awareness of the importance of transportation to the quality of life of Canadians is a necessary part of the process.

Canada's transportation system also needs qualified individuals to work in the transportation sector. Current skills shortages affect many different industries, specifically skilled trades. While building a stronger public image for transportation should encourage people to increasingly view it as a source of employment, more needs to be done.

Building on the federal government's sector council initiative, it is important that there are enough skilled people to participate in the transportation sector and meet the needs of the growing and increasingly global economy in which Canada is an active participant.

For the *National Strategy* to be sustainable, it must possess a vision for the future. This demands the transparent implementation of the *National Strategy*, transparency throughout the supply chain, and a forward-thinking research agenda. Transparency requires the collaborative engagement of stakeholders to identify challenges and determine priorities for investment and policy reform. In addition, there needs to be a strong federal transportation research base. Focusing federal government transportation research initiatives on its transportation system objectives will lead to the identification of future trends and the development of new initiatives or policy changes to achieve the *Strategy's* goals.

Pillar #4: Analyze all transportation infrastructure and regulatory projects and weigh these against the economic, social, and environmental axes of sustainable development. Upgrading, expanding, and preserving Canada's transportation system and infrastructure should take a sustainable approach by working with all levels of government and, in collaboration with the private sector:

- Take a leadership role to address community impacts and environmental concerns;
- Build public awareness of the importance of transportation in relation to the quality of life enjoyed by all Canadians;
- Attract skilled people to meet the needs of the transportation sector; and
- Be forward looking by encouraging transparency across the supply chain and containing a research initiative tied to the objectives of the *Strategy*.

Conclusion



Growing international competition, increasing global supply chains, and the changing Canadian economy make the adoption of a *National Transportation Strategy* for the movement of goods and people essential to ensure the competitiveness of Canada. We call on the Government of Canada to move forward with the development of an objective-based *National Transportation Strategy* that embodies a North American vision, with a multimodal transportation infrastructure investment strategy, a competitive regulatory and fiscal environment, and that is economically, socially, and environmentally sustainable.